Senior Housing: How do variations in Management Practices Influence the Design and Development of Continuing Care Retirement Communities?

By

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Introduction

Demand for senior housing options has increased in recent years and is projected to continue growing. Developers who recognize this trend and wish to expand their portfolios, however, should be aware that senior housing involves a level of complexity not encountered in standard real estate production. For example, some of the unique characteristics of senior housing include: provision of extensive support services, possible provision of asset management and long-term care for residents, and complex regulatory frameworks that govern development. (Andersen & Dillon, 2010)

Within the realm of senior housing development, the Continuing Care Retirement Community (CCRC) has gained significant popularity in the last three decades, and is in a position to be one of the most attractive options for seniors in the future. This type of community provides a variety of housing options, contract options, amenities, and a guarantee of lifelong health care. There are currently more than 1,900 CCRCs in the nation, and that number will undoubtedly rise with the forthcoming increase in the elderly population.

The intent of this project is to gain a better understanding of the factors that influence the feasibility, marketability, and viability of Continuing Care Retirement Communities, especially in North Carolina. Factors considered in this study include Neighborhood and Community Design, Management Structure and Policies, Fee Schedules and Refund Options, and Financial Health and Structure. Each of these elements has a number of variations that can greatly impact the overall development. As developers are faced with greater scrutiny by potential residents, regulators, and lenders, this knowledge will create an advantage in navigating the local market, approval process, and financial analysis. Additionally, the information provided can be used to help development regulators and officials assess the quality and feasibility of proposed projects.

The methodology for this research employed qualitative analysis based on information gained from reading North Carolina Department of Insurance Disclosure Statements, interviewing executive directors and developers of the considered communities, as well as background research completed during PLAN 765 and 761 during the Fall semester of 2010. This research has been paired and compared with recently published literature, and provides both a local and national perspective of the impacts and influences of the considered business practices.

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Overview of the Issues

The Aging Population and its Implications

As with any type of housing market, it is important to know the make-up of the population, the demands of those individuals, and the challenges at hand. The issues facing the senior housing market fall into these categories, but are a bit more specialized. The following section of this paper will summarize the dramatic population changes that will occur in the next few years, the shifting demands and desires of older adults, and the challenges that result in a loss of residential affordability for seniors.

Dramatic Population Changes

During the next 30 years, the United States will be faced with what is commonly known as the "Silver Tsunami." With the first baby boomers reaching retirement age in 2011, the population over the age of 65 is expected to double by 2030, accounting for approximately 20% of the entire population. By 2040, there are expected to be approximately 81 million seniors in the United States, and within this population, the cohort over the age of 85 is expected to grow the fastest, reflecting increasing life expectancy and improvements in medical care. These improvements in medical care are also improving overall quality of life, and seniors are living longer without the incidence of disability. Additionally, there are expected to be an increasing number of single-person households, which impacts the traditional care-giving dynamic that is typically associated with older couples.

As the older population changes and grows, it will be important to consider these characteristics and their implications. For example, the sheer number of older adults will have great impacts on the supply of senior housing options. Currently, supply is somewhat limited, as is the range of options available. A Brookings Institute publication estimates the need for 60 million new housing units by 2030 to accommodate the growing population and to improve the deteriorating housing stock. (Oberlink, 2008) Within this figure, it will be imperative to consider housing options for the aging population. In addition to limited housing, current development practices and suburban community design significantly limit a senior's access to community services. While a number of seniors no longer drive, the separation of uses caused by Euclidean zoning and the shortfalls of many public transportation systems in suburban areas creates considerable barriers between seniors and the services they need for survival.

Shifting Demands and Desires

As older adults become a significant portion of the overall population, their demands and desires will hold considerable weight in influencing the production and design of future communities. A 2006 study completed by AARP found that the housing desires of the aging population are not parallel to those of previous generations. The survey revealed that 89% of Americans over the age of 50 would prefer to remain within their own homes with the assistance of supportive services rather than relocate into assisted living or skilled nursing facilities. That same survey also revealed that, if unable to stay in their own home, 85% of respondents want to stay within the same community with the same friends, family, and neighbors. (Wardrip, 2010) Additionally, older adults want to remain independent and active within the community and do not want to be institutionalized in higher care facilities.

This growing demand to age-in-place creates implications in a number of areas. The demand for in-home services has certainly increased. With in-home services, seniors are able to age in their own residences while enjoying the types of support provided by senior living facilities. Care comes to the individual, not vice versa. It goes without saying that in-home services do not require residential real estate development per se, but aging in place is affected by the condition of an older adult's home. For many seniors, the housing they live in is not suitable for an aging resident. Older homes are typically inefficient and can have very high energy costs. Additionally, many homes were not designed for accessibility. Hallways and doorways may be too narrow for walkers or wheelchairs. Bathrooms may not be located on the ground floor, and likely do not have grab bars, raised toilets, or other necessary safety items. Finally, entrances often have steps that must be maneuvered to enter into the house. Each of these accessibility and efficiency issues inhibits a resident's ability to age within their own home, and creates a need for residential retrofitting or relocation into a more appropriate senior community.

Decreasing Affordability

A majority of senior households must support their lifestyles on fixed and/or limited incomes. This income is primarily earned from social security and returns on investments. For many seniors, however, the recent economic crisis has taken a toll on assets and investment income is no longer a guarantee. Additionally, the seniors of the future will not be able to depend on the federal social security system to support their retirement. Approximately one-third of all senior households earns less than $20,000 each year, and in 2007, about 8.5 million, or nearly half, of all households over the age of 65 spent more than 30% of their income on housing costs. With that, about 4.6 million senior households devoted more than 50% of their income to housing. Because there are limited options for smaller, more efficient for-sale and rental units, many older adults are faced with the financial burden of maintaining homes that are larger than necessary. In some cases, housemate arrangements could address this issue, but these arrangements are relatively uncommon.

Senior Living Options

Contemporary senior citizens have been vocal in demanding housing options that provide appropriate levels of care, that offer choice in daily activities, and that provide a high quality of life. Today, if a developer wishes to build a senior housing community, he or she has a number of options from which to choose. There are many types of senior housing, each requiring different construction and marketing considerations. The following table provides a brief description of each.

Table 1: Types of Senior Housing

	Typical Entry Age	Level of Care
Age-Restricted/Retirement Community Age-restricted communities for older adults who require no support services.	55	NA
Independent Living Facilities that provide support in Instrumental Activities of Daily Living (IADLs).	75	Low
Assisted Living Facilities that provide support in Activities of Daily Living (ADLs) as well as Instrumental Activities of Daily Living (IADLs).	85	Medium
Memory Care Facilities that provide specialized services for persons with dementia and other cognitive diseases.	-	High
Skilled Nursing Care Facilities offering 24-hour nursing care. Typically residents are either undergoing short-term rehabilitation or are in a state of health that requires constant care.	-	Very High
Continuing Care Retirement Communities (CCRCs) Facilities that offer a continuum of care, ranging from independent living to skilled nursing. Residents move in with low service needs, and obtain additional care services as their health declines.	75	Varies
Aging in Place/In-Home Care Service providers visit seniors directly in their homes.	-	Varies

Unique Aspects of Senior Housing Development

Three primary characteristics of senior housing development distinguish it from standard real estate development products: 1) the provision of supportive services; 2) asset management and long-term care for residents, and 3) regulatory frameworks.

Supportive Services

With the exception of age-restricted communities, all types of senior housing development are more than just a building. The structure goes hand in hand with senior supportive services. For independent living communities, residents are often able to live independently, but assistance in Instrumental Activities of Daily Living (IADLs) such as meal preparation, housework, taking medication, managing money, shopping, and using technology such as phone and email is available if needed. Assisted living facilities provide assistance with IADLs as well as Activities of Daily Living (ADLs), which include personal hygiene, dressing and undressing, feeding, transferring, and toileting. Only a small portion of the senior population requires assistance with these activities, an important consideration for market demand analysis. (See Figure 1.)

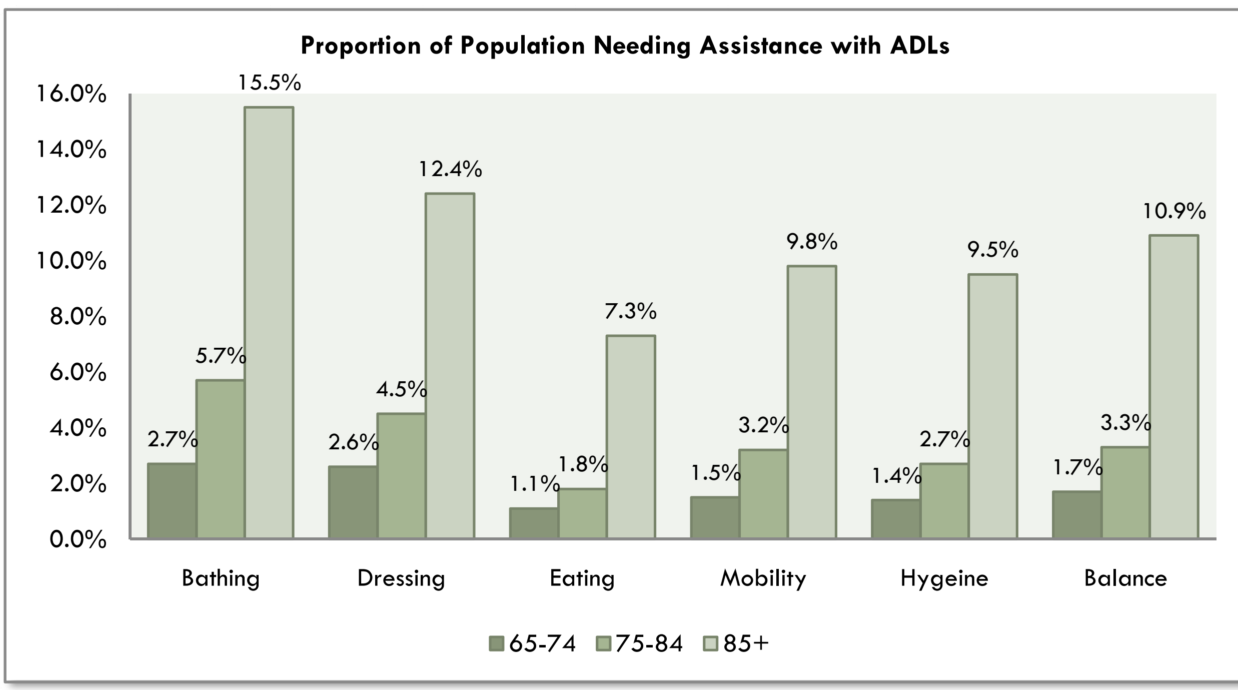

Figure 1: Proportion of Population Needing Assistance with ADLs
Source: University of Michigan: National Center for Health Statistics/National center on Aging; Recreated based on Brookdale Senior Living Corporate Brochure.

The rise in dementia and cognitive disorders is also impacting the level of care provided within senior housing communities. According to the Alzheimer's Association, more than 5 million people suffer from Alzheimer's disease, which has become the 7th leading cause of death. As a result, facilities now specialize entirely in serving residents requiring memory care. In addition, other types of senior housing facilities may include a memory care component in their service package.

Because the operational costs of providing supportive services are very high, the level of care provided within a senior housing community can greatly impact the feasibility of the project. Although a developer can construct a new community and hire an outside management agency, the operating pro forma and design of the structures will be significantly impacted by the level of care that the facility provides.

Asset Management and Long-Term Care

Housing affordability is an important consideration for all age groups. As previously mentioned, affordability is especially important for seniors for a number of reasons. First, most seniors do not work fulltime; they typically rely on small incomes and/or assets to support themselves. Second, they cannot anticipate the length of their life, and consequently how long they will need to pay for housing and services. Third, many seniors have difficulty managing their finances as their age progresses and their health deteriorates. For these reasons, many developers who specialize in senior housing offer unique financial services.

During the recent recession and real estate crisis, this area of management has seen a lot of growth. Because many older adults rely on the sale of their home to finance their move into a senior housing community, few new residents have recently been able to relocate. This population grew up during the Great Depression and the War Era, and many residents have been reluctant to place their homes on the market, convincing themselves they could postpone their move. As a result, some senior housing complexes instituted incentives to ease this transition. Brookdale, for example, now offers home sale assistance. The Cedars of Chapel Hill offered "incentives for people to move, such as paying the monthly service fee for a year, discounting prices, paying interest on bridge loans, etc., all with limited success" (Woodruff, 2011). As the economy improves, it is anticipated that the housing market will recover and the move to senior housing communities will be easier.

Regulations

All real estate developments are subject to local regulations such as zoning ordinances, design codes, financing requirements, and political approval. In addition to these local regulations, senior housing developers face additional state regulatory hurdles that must be cleared in order to complete their projects. These regulations vary by state, and can greatly impact the length of the development process and the financing needed to submit applications and complete feasibility studies.

In North Carolina, senior housing developments are regulated by two bodies. Assisted living and skilled nursing facilities are regulated by the Department of Health and Human Services. In order to be a licensed care provider, the facility must submit a disclosure statement including information about the services to be provided, the acceptance policy for residents, financial and legal relationships with other care providers, and a summary of competitive facilities in the county. Once this application is accepted and a license is granted, the facility may open and begin providing care.

Continuing Care Retirement Communities (CCRCs) on the other hand, are regulated by the State Department of Insurance and involve a much more intensive licensing process. To receive a license for a CCRC, the developer must complete a four-step process. Prior to dissemination of promotional materials to the community, a developer must notify the state of its intentions, and must include identification of a site and target market with preliminary market assessments. This allows a developer to complete market feasibility studies and to collect non-binding agreements for the pre-leasing of units. After this initial notification, the developer must submit a monthly progress report to the state. The next section of this paper will describe market assessments for CCRCs in more depth.

The second step is to obtain a Start-Up Certificate in the "pre-development" phase. This step is the most lengthy and requires the longest turn-around time from the state. The application requires a disclosure statement, audited financial statements, market and financial feasibility studies, and a report from an actuary estimating the capacity of the provider to meet contractual obligations. Once the Start-Up Certificate is awarded, the developer may enter into binding pre-leasing agreements, begin site preparation, and construct marketing model units.

After a developer has pre-leased at least 50% of the total number of independent living units (accompanied by a 10% deposit), (s)he may enter into the construction/development phase and apply for a Preliminary Certificate. Once this application has been approved, the developer can begin construction or renovation for the project.

After the completion of construction, and at least 60 days before the community is scheduled to open, the developer must make a fourth and final application to the state for a Permanent License. At this point, the developer must have enough residential agreements to reach a break-even point, and must have deposits for these units. Once the license has been issued and all other legal requirements have been met, the developer may open the CCRC and begin providing care.

Regulatory processes such as these have significant impacts on the phasing and financing of projects. Consequently, many CCRCs have a development period of seven to ten years, and are greatly affected by changes in the market and economy during this time. The licensure process does, however, limit the number of competitive communities, and attempts to ensure reasonable quality of care provided within each. In the future, it is anticipated that the state will add stricter regulations regarding the availability of financing information and community financial health to all CCRC residents in order to protect residents' assets and investments within the development.

Finally, before any money is transferred between a potential resident and the community, a Disclosure statement must be made available to potential residents. This disclosure statement is required by the state, is public record, and includes information describing:

- The legal ownership entity and the partners or board of directors
- The operating/management company or in-house staff
- Affiliations with other organizations or providers
- The location and physical description of the community
- Services provided within the contracts available
- All fees required and the timing of each
- Terms and conditions for contract termination and refund options
- Admissions policies
- Audited financial statements and five-year projections
- Plans for expansion or renovation

These public disclosure statements have proven very useful in making comparisons between local CCRCs for this study. It is beneficial for a community to include as much detail as possible in these statements in order to provide potential residents with transparency and the greatest level of education possible.

Market Assessments and Feasibility Studies

Market analysis may be the single most important aspect of the senior housing development process. In the recent real estate environment, many developers thought senior housing would be the easiest product. "Nothing is further from the truth because we are dealing with a much smaller market and it is infinitely more difficult to get people to move out of their current home to what they think of as the last place they will live…a market study of age and financially qualified population is imperative. Competitive analysis of existing CCRCs is very important. Focus groups to assess the level of knowledge and interest are also important, although this is probably just as important as a selling tool" (Woodruff, 2011).

The overarching framework for any market feasibility study is the comparison between existing and future demand and supply for a specific product. When considering senior housing options, the methodology is nearly the same as that of traditional real estate products. The methodology for determining demand, however, depends much more on the economic conditions and demographics of the market area.

Area Definition

To determine the pool of potential residents, a market area must be defined. The market area can be delineated by physical boundaries, such as mountains or bodies of water, social boundaries like neighborhoods, a simple radius, or by zip codes or census tracts. Within this area, population and demographic statistics are gathered to assess the characteristics of the population.

The primary market area definition often follows the finding that seniors unable to age in place prefer to do so within their own communities. Based on discussions with Brookdale Senior Living and Ecumen, 70-75% of all senior housing residents are attracted from 20 to 30 miles from the site. The size of the market area does, however, depend on the setting of the housing development and the type of housing offered. Urban sites tend to have much smaller market areas while rural sites draw from a much larger area. This may be attributed in part to people's reluctance to move into the city, or may be a result of the fact that residents of rural areas are generally accustomed to traveling longer distances to obtain services or to reach a destination. In regards to housing product, assisted living communities and skilled nursing facilities often draw their population from a much smaller, more localized area than independent living communities.

The secondary market area is much more difficult to define and is often drawn from community demographic information. In many cases, residents of a senior housing community select a location based on the location of their adult children. According to a book published by the Appraisal Institute, "In market areas that are characterized by substantial in-migration of the middle-aged work force, such as Charlotte, North Carolina, ALFs [assisted living facilities] report that 50% or more of their residents are from totally outside the local area due to the influence of these adult children/caregivers" (Gimmy 1998).

Demographics

Like any real estate market analysis, population demographics are important in determining the market penetration of a senior housing development. These characteristics include: age, income, household type, housing tenure, frailty level, and presence of adult children. Table 2 summarizes each of these factors.

Although the age of typical senior community residents is increasing as a result of longer life expectancies and improved medical care, the lowest age to consider in a market analysis is approximately 70 years for independent living and 75 for assisted living. The entry age for independent living communities is lower than that of assisted living and skilled nursing communities, simply as a result of the level of care provided by each housing product. Because levels of frailty tend to increase with age, those communities providing more intense care attract older populations. Memory care facilities, however, often focus on populations age 65 and older based on the nature of Alzheimer's disease and other dementias.

Within the 70 years of age and older population, all renters and owners are considered part of the target market. All one- and two-person households are considered for independent living communities, while only single-person households are considered for assisted living or skilled nursing facilities. Within this same vein, because many seniors relocate to retire near their children, the size and income levels of the 45-64 years of age cohort should be considered to account for the potential influence of adult children/caregivers.

After the potential target market has been narrowed by age and housing tenure, it should further be narrowed by economic characteristics such as household income, median home values, and current average home sale prices. These indicators help predict a senior's ability to meet entrance and monthly fee requirements, and will help a developer determine rent or sales prices for the community. As with the other indicators, the income levels of the adult children population may provide insight for potential market penetration rates as well because financial support is sometimes provided by these caregiving children.

Table 2: Comparison of Demand Criteria for Independent Living and Assisted Living Communities

	Independent Living	Assisted Living
Age	Minimum age can be 70 or 75	Minimum age is 75, occasionally 80
Income	Depending on program, 60-65% rent/income ratio. Use of home value investment interest	Minimum is 75% rent/income ratio; Standards changing to 80-85%. Use of home value investment interest. Inclusion of spend down of assets
Household Type	Include all one-person and two-person (married couple) households	Discount or eliminate all two-person households.
Housing Tenure	Include owners and renters	Include owners and renters
Frailty Level	No frailty indicators.	Utilize frailty indicators, estimating percentage of elderly with need for assistance with ADLs.
Adult Children	Minimal involvement unless resident is frail	Estimate size of market age 45-64 and income levels. No specific correlation between size of market and unit demand.

Source: Gimmy 1998.

Competitor Analysis

When considering the feasibility of a new senior housing community, it is incredibly important to consider the impact of competitive projects. These projects greatly influence the time needed to achieve stabilized occupancy as well as the appropriate size, features, and pricing. A competitive market analysis can shed light into communities that are thriving as well as communities that are having difficulties, and the factors that influence each situation.

When assessing competitive projects within the target market area, a developer should consider the location and whether the project is owned by a for-profit or non-profit entity. This will impact not only the overall financing and management of the project, but the accessibility from the market area as well. The location also impacts the capture area and the geographic target area. Within each senior community, the number of units, level of care, amenities, and prices and payment plans should be assessed. This will help a developer determine which projects are in direct competition with each other, and which elements of a community create the greatest economic return. For completed projects, occupancy levels, waiting lists, turnover rates, and resident population profiles should be considered in developing accurate demand assumptions. In most cases, waiting lists and low turnover rates will help developing communities anticipate the need for financing and the length of the period needed to reach stabilized occupancy. These two figures will help project accurate figures in the operating pro forma.

Timing is incredibly influential in the success of a senior housing project. Within the competitive project analysis, it is important to communicate with planners, local government officials, and other developers to assess the projects that may be in the pipeline and slated for development in the near future. These projects will create direct competition for new senior housing communities and should be assessed with great scrutiny. These new competitive projects will often be the ones that make or break the feasibility of a development.

Economic Conditions

In addition to basic income characteristics, the overall economic health of a community is important in anticipating the feasibility of a senior housing development. Because many seniors finance their long-term care with the sale of assets and interest from investments, the health of the housing market can play a key role in a senior's ability to move into a retirement community or assisted living facility. Employment characteristics and the health of major employers can impact the ability of senior housing communities to achieve adequate occupancy levels as well.

Continuing Care Retirement Communities

Because of the flexibility in the provision of care and housing options, Continuing Care Retirement Communities (CCRCs) have gained popularity throughout the nation. These communities offer a continuum of care for the aging population ranging from incidental and preventative care to hands-on and rehabilitative medical attention, and offer housing options that range from independent living to skilled nursing. CCRCs are well suited for affluent and sophisticated clientele, and are often seen as a good business investment (as opposed to a real estate investment) for investors. CCRCs have "evolved into a lifestyle choice with the comfort of knowing that one can be cared for the rest of their lives, regardless of the level of health, both physical and mental. It is a great solution to the 'what if' questions and has relieved tremendous amounts of anxiety among seniors and, just as importantly, among their children" (Woodruff, 2011).

Continuing Care Retirement Communities: An Introduction

LeadingAge, formerly the American Association of Homes and Services for the Aging (AAHSA), defines CCRCs as communities that

> Offer several service all in one location which gives a person the chance to stay in one place, even if his or her needs change. These services may include nursing care or other health services, meals, housekeeping services, transportation and emergency assistance. These communities also offer a variety of social activities and educational opportunities on the campuses. (LeadingAge, 2011)

When residents select a CCRC, their contract acts as a long-term care insurance policy, ensuring that the community will provide housing and services for the extent of the resident's life. Because these communities offer a variety of residential and care options, older adults have the ability to meet their desire to age-in-place by living in one location for the duration of their life, regardless of the level of care that is needed.

CCRC Evolution

The first CCRCs began more than a century ago as a place for retired clergy, missionaries, and other religious leaders to age in a modest, yet secure environment. Later, after World War II, the need for institutional caregiving for older adults significantly increased as women entered the workforce and were no longer able to care for aging parents. In the 1960s, when the average life span increased to about 78 (more than double the life expectancy of 30 years earlier), more

Americans were reaching retirement age, and in general, were in better health. The combination of these trends has led to the need for long-term care insurance, and with that, the desire to age within a community. Since the 1960s, the CCRC has experienced steady growth in both numbers and the delivery of services. (Mandy, 2009)

Many of the CCRCs in operation today developed in two different ways. Some "evolved from nursing homes and tend to have a higher number of nursing beds; others were originally built as a CCRC (i.e. 'purpose-built') and were designed with a proportionally greater number of independent living units" (Zarem, 2010). During the 1970s, the development of CCRCs gained momentum as a result of their contract, housing, and healthcare flexibility. These communities provided an option for secure financial investments with a guarantee for long-term health care coverage. CCRC development boomed through the 1980s, but slowed at the end of the decade as a result of unsophisticated lending practices that led to a number of defaults. During this time, nonprofit organizations became involved in the development of CCRCs, but as free-standing assisted living facilities gained popularity, CCRC development remained relatively stagnant. Increasing sophistication in the operation of CCRCs and the access to credit from lenders resulted in the addition of about 10 to 20 new CCRCs (across the nation) during each year of the 1990s. (Mandy, 2009)

Today, CCRCs remain one of the most attractive housing choices for older adults. They meet many of the desires of the aging population and offer options, flexibility, and a relatively secure investment environment. Additionally, the amenities offered to residents can be used as a supplementary source of income and marketing for the community by granting memberships to non-residents. Unfortunately, though, since the collapse of the housing market and the credit crunch of 2008, there has been a sharp decline in all new construction, and senior housing communities have been no exception. Established CCRCs were able to weather the storm, but many new communities found that structural changes were necessary for survival.

Today, there are nearly 1,900 CCRCs across the nation and the number of residents "has more than doubled from 350,000 in 1997 to 745,000 in 2007" (Kohl 2010). Many of these communities were purpose-built, and a majority are managed by nonprofit and/or faith-based organizations. Most are part of a healthcare system and have fewer than 300 units. Their locations range from urban to rural, in 48 states and the District of Columbia. The top ten states with the greatest number of CCRCs are:

1. Pennsylvania
2. Ohio
3. California
4. Illinois
5. Florida
6. Texas
7. Kansas
8. Indiana
9. Iowa
10. North Carolina

(Zarem, 2010)

Residential Accommodations and Services

While no two CCRCs are identical, their continuum of care calls for many of the same residential components and amenities. Housing types are likely to be separated throughout the campus, but often dining areas and other community amenities will be placed in a central location. These amenities typically include fitness and wellness facilities, libraries, gift or snack shops, banking, and religious services. In most instances, an individual enters into an independent living unit of the community, and then transitions through the other components as additional care is needed.

Independent Living Units

Independent Living Units (ILUs) are typically provided in a townhouse or cottage design, but may be low-, mid-, or high-rise apartments. Residents at this level are generally healthy and require little, if any, assistance with activities of daily living. ILUs may be integrated into the assisted living and nursing care, but are often a separate part of the campus. "The separation of the continuum is a sensitive issue: residents choose to live in a CCRC because the idea of aging within the same community appeals to them, but on the other hand, the proximity of increasingly intensive service levels is an unpleasant reminder of their vulnerability and mortality" (Gimmy, 1998). Within this level of housing, services such as weekly housekeeping and laundry, meal preparation, transportation, and the use of community facilities may be included in the monthly fee. These services, in addition to others, may be offered for an additional fee as well.

Assisted Living

As residents in ILUs age and require more medical attention and assistance with activities of daily living, they may transition into an assisted living unit within the community. Assisted living offers assistance with these activities while allowing the resident to maintain a level of independence. These units are much like studios or small apartments with either scaled-down or no kitchen facilities. Meals and social activities are typically provided in a central space, and housekeeping and laundry services are included in monthly fees.

<u>Nursing Care, Memory Care, and Home Care</u>

The highest levels of care in a CCRC are delivered in three different ways. In some cases, skilled nursing facilities are significant components of the overall community. These facilities may be used for rehabilitative services, or for around-the-clock hands-on care. Nursing care is typically the highest intensity of residential options. Units are equipped with bathroom facilities, but meals and other services are provided in central locations throughout the building.

As cognitive diseases, such as dementia and Alzheimer's, become more prevalent, many CCRCs are including memory care units as residential options. "The aim of these facilities is to help [residents] maximize their functioning, maintain their dignity, preserve their sense of self, and optimize their independence as long as possible" (Zarem, 2010). Adult day care services provide this type of care without the residential component, and may be provided in a CCRC as well.

In some CCRCs, nursing and memory care are provided off-site through agreements with other communities. Under these conditions, a community may offer Home-based care as an alternative to relocation into a more intense environment. These services allow older adults to remain in their independent living units while receiving the additional assistance with activities of daily living as needed.

Contract Types and Services Provided

Most CCRCs fall into the "Entrance-fee" category. When moving into one of these communities, an up-front fee is paid to guarantee placement within the community for the extent of the resident's life. Once the individual has moved in, communities charge a monthly fee that covers rent and the provision of services. Within the world of CCRCs, there are three basic types of contracts. Some communities offer only one type, while others may offer multiple choices.

<u>Type A: Life-care/Extensive Contract</u>

This contract option is by far the most expensive for the resident, but it does provide the most extensive care opportunities. Unlimited assisted living, medical treatment, and skilled nursing care are provided without additional fees (beyond the agreed value of the contract). (AARP, 2010)

With this full-service contract, an individual will pay an entrance fee and ongoing monthly fees. "The CCRC bears the majority of the financial burden of the resident's long-term care" (Zarem, 2010) with this type of contract. Because it is impossible to guess the length of the resident's life, it is not possible to estimate the exact expenses for each individual's care. In this case, a community sets the entrance fee and monthly fees at levels that will cover the care anticipated throughout the life of the resident.

Type B: Modified Contract

This type of contract is much like Type A in the fact that a resident is responsible for paying an up-front fee as well as monthly fees. The care that is provided, however, is structured differently. This agreement "offers the same access to health care; however residents only pay for care as it is needed. The monthly service fee increases as levels of care increase, although residents may receive a discounted rate for the care and a specified number of days of long term nursing at no additional cost" (Gimmy, 1998). Because some care is provided as part of the contract, the CCRC bears the burden of these expenses. Residents are responsible for the per diem rates beyond the care provided in the contract.

Type C: Fee-for-Service Contract

This type of agreement allows for the lowest monthly fee, but includes only minimal care. In this case, the monthly fee covers the unit rent and basic services, but the resident is responsible for any additional costs of care without the benefit of free days or discounted rates. Rather, residents are given priority and guaranteed admission into higher levels of care. In this situation, the resident bears the full cost of their long term care needs.

Rental contract

As a substitute for the traditional entrance-fee contracts, some CCRCs use a rental contract structure instead. Although this arrangement requires higher monthly fees and full costs for health care, it does allow residents to move into the community without the significant up-front expenses. Because many seniors finance their move into a CCRC with the sale of their home, the recent housing crisis has made it nearly impossible for communities to attract new residents. Many new CCRCs have consequently adopted rental contract structures in order to achieve the occupancy levels needed for sustainable operations.

Benevolent Care

"For many CCRCs, providing support for residents who qualify for financial assistance or who run out of funds is viewed as a fulfillment of the organization's mission and purpose" (Zarem, 2010). Admissions criteria (discussed later in this paper) are a CCRCs primary method of risk management, and help the organization maintain a healthy, financially secure population. CCRCs make every effort to ensure that a resident's health and financial situation are in good standing and do not hold potential risks for the future. Health and money, however, are never certainties. As a result, CCRCs maintain a benevolent care reserve that is available if a resident has maintained sound financial decision-making, but reaches a point of fund exhaustion.

Variations in Management and Design

The following section of this paper is based on the comparisons of five different CCRCs in the Chapel Hill area (Carol Woods, Carolina Meadows, Cedars of Chapel Hill, Forest at Duke, and Galloway Ridge) with the literature written about CCRC management and design practices. The comparisons are primarily based on the information provided in the North Carolina Department of Insurance disclosure statements, but additional details were gathered from interviews and community websites.

Carol Woods

Located on the northern edge of Chapel Hill, Carol Woods was developed by a group of local residents in 1979. This grassroots group became the first residents of Carol Woods, and some remain in the community today, more than thirty years later. The community is now home to 462 residents in 406 independent, assisted, and nursing units. Carol Woods provides a Modified/Type B contract option, and all care is provided on site by professionals contracted through the Department of Aging of the University of North Carolina. Carol Woods also has a supporting nonprofit organization and is the only CCRC in the Triangle that provides a Children's Center that promotes intergenerational interaction. Based on the community's master plan, Carol Woods anticipates a $13.75 million expansion in the next 5 to 10 years. This community remains incredibly popular within the area, with an anticipated waitlist period of 8 to 10 years.

Carolina Meadows

Carolina Meadows, built in 1983, is the largest community included in this comparison. With a site of 167 acres, this community is home to 674 residents living in 558 independent, assisted, nursing, and memory care units. The community is designed around a 9-hole golf course and just began an expansion in the number of independent living units and anticipates a modernization of other facilities within the next 5 to 7 years. Carolina Meadows offers a Fee-for-Service/Type C contract, and is the only CCRC in this study that is a smoke-free community.

Cedars of Chapel Hill

As part of the Meadowmont development, the Cedars of Chapel Hill began in 2004 and is the only for-profit CCRC in this study. The community was developed by East-West Partners and exercises a complicated management structure that includes the for-profit developer, a nonprofit condominium association, a nonprofit membership club, and a for-profit group that manages the day-to-day operations. The Cedars currently has 428 residents residing in 342 independent, assisted, and nursing units, and benefits from the shopping and dining options available in the adjacent Meadowmont village. This is the only community in this study in which the residents directly purchase their homes as condominiums and long term medical care is provided at a reduced rate through membership in The Cedars of Chapel Hill Club.

Forest at Duke

The Forest at Duke is located near Central Durham, south of Duke University's campus. This CCRC was developed in 1992 when neighbors and faculty of Duke University joined together to create an exceptional retirement experience. Nearly 20 years later, The Forest at Duke is one of the most prestigious retirement communities with only 332 independent, assisted, and nursing units, 387 residents, and a 3 to 5 year waitlist period. This community has significant programmatic affiliations with Duke University and Duke University Medical Center to provide services and activities for residents. Health Care is offered through a Modified/Type B contract, and there are three different refund options for residents. The Forest at Duke was recently updated in 2004, and does not have any current plans for expansion.

Galloway Ridge

Built in 2005 as part of the Fearrington Village development, Galloway Ridge is the newest community considered in this study. This CCRC is located in a rural area between Chapel Hill and Pittsboro, but attracts residents from both municipalities. Currently, the community is home to 337 residents living in 274 units, but pre-leasing and construction have already begun for Phase II of this development. By 2013, the community will occupy 55 acres and will have 120 new units including memory-care designated assisted living, and a number of new amenities including a 49-seat cinema, a massage therapy room, and an expansion of the Duke Center for Living. Galloway Ridge is owned by a nonprofit organization, but is managed by CRSA/LCS Management, LLC, and is the only CCRC in the Triangle offering an Extensive/Type A contract.

More detailed comparisons of these five communities can be found in the tables in the Appendix beginning on page 42.

Neighborhood and Community Design

The design of a CCRC is incredibly important in its marketability and attractiveness to future residents. Because this is expected to be the last place someone will live, the community must meet expectations, apartments or cottages should be efficient, and the location should be ideal. Each of these areas of expectation differs between older adults, but in general, there are trends that lead to successful CCRCs. Of these design trends, the number and breakdown of units, amenities and activities, and the location are discussed below.

Number and Type of Units

Across the nation, the average number of units in a CCRC is less than 300, and in the past, the rule of thumb was that skilled nursing should be equal to about 25% of the number of independent living units. That figure has since decreased. Within this study, none of the CCRCs meet either of these criteria. The average size of CCRCs in the Chapel Hill area is about 382 units, with skilled nursing beds equal to about 15% of the number of independent living units.

	Carol Woods	Carolina Meadows	Cedars of Chapel Hill	Forest at Duke	Galloway Ridge
Total Units	406	558	342	332	274
Independent Living	152 Cottages 132 Apartments 3 Townhomes	229 Villas 160 Apts.	49 Cottages 194 Villas (Duplex) 63 Verandas (Apts.)	80 Cottages 160 Apts.	51 Villas 183 Apts.
Assisted Living	89 Units	64 Units	4 Units (Within Skilled Nursing Facility)	42 Units	23 Units
Skilled Nursing	30 Beds	90 Beds	32 Beds	50 Beds	17 Beds
Memory Care	-	15 Beds	-	-	-

As a proportion of total units, independent living accounts for about 75% of units in the communities considered. These independent living units are delivered in all shapes and sizes, and there are a number of options to choose from. Approximately half are apartments, ranging in size from studio to two-bedroom units in two- to three-story buildings. Other independent living units are traditional single-family cottages, villas, and duplexes. As large tracts of land become increasingly scarce and the overall size of CCRCs decreases, there will likely be an increase in the percentage of apartments provided in comparison to detached cottages. This trend can already be seen in the differences in make-up between Carol Woods and Carolina Meadows (the oldest communities in this study) and Galloway Ridge and The Cedars of Chapel Hill (the newest communities in this study). Newer communities will likely find it necessary to increase the density of units in order to achieve break-even pricing.

As baby boomers begin to enter these communities with good health and younger ages, there will be an increase in current demand for independent units. In line with the national trends, the expansion plans for each CCRC in this study are primarily focused on increasing the number of this type of unit. Carol Woods, for example, has acquired three townhomes in the adjacent neighborhood that serve as independent living units, and has the intention of acquiring more in the future. This plan provides an alternative for expansion that does not require immediate land acquisition and new construction.

Within the next 10 to 15 years, as the baby boomers begin to experience the need for additional care, CCRCs will likely see a need for the expansion of higher levels of care. This may include the addition of assisted living facilities, skilled nursing facilities, or the provision of in-home care with a fee-for-service. As construction costs and land prices continue to rise, in-home care, like that provided at The Cedars of Chapel Hill, may be the most efficient option. Memory care options will also be imperative as cognitive diseases continue to be prevalent within the older adult population.

Amenities and Activities

There is no magical combination of amenities and activities that automatically leads to success in the CCRC industry. Often, CCRCs in the same region will offer a very similar list of amenities in an attempt to remain competitive with each other, but may offer one or two unique features that increase the community's marketability. Inevitably, however, there are cost and revenue trade-offs associated with each amenity. Some features may impose a relatively low cost, but create a very high return. Other amenities may have the adverse effect. These trade-offs, however, are incredibly difficult to estimate. As stated by the President of The Cedars, "In some ways it is like a Rubik's Cube because changing one assumption affects several others. Financial modeling and testing of assumptions is a never ending task" (Woodruff, 2011).

An important factor in determining which amenities will be most appealing is often embedded in the mission of the community. Most CCRCs encourage their residents to lead purposeful, active, and healthy lives, while enjoying a standard of living that they are accustomed to and contributing to the betterment of the community. As a result, there are a number of features that are common throughout most CCRCs. These include formal and informal dining areas that promote social interaction, indoor pools and fitness facilities that encourage physical health, classroom and assembly areas that become sources for lifelong learning, and arts and crafts studios that support creativity and productivity. For many CCRCs, these elements have come to be expected by residents and are inherent components of any design. Over the years, amenities have evolved and changed with trends, and now computer rooms, spas/salons, banks, and business centers are also included in the mix.

In assessing the communities for this study, each meets the minimum standards of amenities and features, but there are also some unique features that are included in individual communities:

- The Children's Center at Carol Woods not only provides child care for the staff and employees, but also gives residents opportunities to volunteer and give back to the community. This Children's Center promotes intergeneration interaction, provides mutual benefits for residents and staff, and instills in children an appreciation for older adults.
- Carolina Meadows is designed around a 9-hole golf course that encourages social interaction and physical activity among residents. There are organized clubs and activities, and residents and their guests can enjoy the course without tee times or green fees.
- The Forest at Duke Gift Shop, located in the Health Center, gives residents an opportunity to purchase cards, gifts, and other basic necessities without the need to arrange transportation or to leave the campus.
- The Duke Center for Living is a medically based wellness center that provides a full spectrum of services, and is included in the monthly fee at Galloway Ridge. The Center offers state of the art facilities including exercise equipment, a heated pool, an indoor track, instructional classes, and professional staff and trainers. The Center is expected to be expanded with the Phase II development of Galloway Ridge

A complete list of amenities can be found in Appendix pages 43 and 44.

Location

When older adults elect to leave their homes to relocate into a retirement community, the location of the community often plays a larger role in their decision than any of the amenities. Seniors prefer to have access to their social circles, medical practitioners, and their families. They want a community that has sufficient amenities, but will also provide access to happenings in the local area. Some older adults look for a community in a pastoral rural setting, but increasingly, seniors are looking for urban and/or mixed-use communities. As Bob Woodruff says, "just because someone is a senior, doesn't mean they want to be put out to pasture" (Woodruff, 2011).

Regardless of urban or rural location, accessibility to primary shopping facilities and basic needs is very important. A significant portion of adults over the age of 65 are either no longer able or no longer willing to drive. This increases the need for walkability and proximity to area resources. "One-quarter mile to such services is generally the maximum as a rule of thumb. Not only does the ability to shop for essential items afford convenience and a sense of independence, but the proximity of shopping usually indicates the presence of other amenities as well. Public transit lines, post offices, restaurants, banks, doctor and dentist offices, drugstores, churches, and community centers are fixtures in local shopping areas and positive consequences of agglomeration practices" (Gimmy, 1998).

Walkscore.com is an online resource that measures proximity to amenities like restaurants, groceries, schools, parks, and entertainment. Based on these calculations, The Cedars of Chapel Hill, located in the mixed-use Meadowmont development, has the highest walk score and the greatest access to amenities. Although Galloway Ridge is also located in a new, relatively mixed-use development, Fearrington Village does not provide the same type of basic shopping facilities, and consequently has a very low walk score. The Forest at Duke and Carol Woods are both within close proximity to amenities, but are on highly traveled roadways that do not promote pedestrian traffic.

Management Structure and Policies

Each continuing care retirement community ownership entity is formed differently and employs various management techniques and practices. These practices can have significant impacts on the overall success of the community, not only in the satisfaction of residents, but also on the financial health of the organization. Communities can be owned by nonprofit or for-profit entities, managed in-house or by an outside company, and have three different contracts and unlimited admissions policies to choose from. Each of these elements will have trickle-down effects on the campus and the outside community as well.

Organizational Structure

The CCRC industry has largely been dominated by nonprofit tax-exempt organizations, although for-profit developers have been joining the scene in recent years. "Proprietary interests have entered the CCRC arena in larger numbers, mainly because of the evolution of the market. Seniors have become more educated about their options. The communities that provide the widest choices of living units and services are becoming increasingly attractive" (Pearce, 2007). Because the CCRC industry has become incredibly sophisticated, many communities operate financially like self-sustaining businesses. As a result, the nonprofit CCRCs with limited outreach and benevolent care have received scrutiny from the IRS regarding their charitable tax-exempt status. In North Carolina, nonprofit CCRCs benefit from an exemption of corporate income taxes, property taxes, and sales taxes.

In this study, four of the five CCRCs are owned by nonprofit tax-exempt organizations. Because of The Cedars' condominium sales financial model, the entity does not qualify as a charitable nonprofit organization. Its management entity, however, is a nonprofit membership organization and the condominium association is categorized as a nonprofit entity. The drawback of this structure is that in addition to entrance and monthly fees, the residents in this community are also responsible for property taxes on their homes plus the pro rata share of the common property. (Woodruff, 2011)

In order to promote and market a CCRC within the larger community, some nonprofit CCRCs make voluntary contributions toward things property taxes typically fund, such as schools, fire departments, and police protection. Carol Woods and the Forest at Duke, for example, both make contributions to local charitable organizations. This helps maintain the favorable reputation within the larger community and allows the residents of the CCRC to contribute back to their own communities. When completing annual budgets, nonprofit CCRCs should consider a line-item allowance for these types of contributions. These contributions to community organizations serve as a marketing tool, and are likely to generate enough interest from the outside community to create a positive return through future entrance fees and/or contributions.

Admissions policies

Approving individuals for residence in a CCRC is one of the most important decisions a community's management team makes. Even slight leeway in admission criteria can cost an organization thousands of dollars in health care provision. The admissions underwriting criteria will undoubtedly vary between CCRCs, but there are a few underlying themes that apply to all communities.

Age Restrictions:

Because CCRCs are classified as senior housing, there is a minimum age requirement for residents. This age requirement, however, varies based on the type of contract and level of health care provided by the community. Within this study, Carolina Meadows has the lowest age restriction of 55 years. Because they offer a fee-for-service contract that does not include the provision of health care, the CCRC does not bear the financial burden when a resident graduates from independent living into higher levels of care. Galloway Ridge, on the other hand, a CCRC that provides an extensive life care contract, bears the burden of this care, and therefore does not accept residents under the age of 65. It is anticipated that an older admissions age will help minimize the number of residents in need of intense care as they continue to age.

Ability to Live Independently

The residential entry level into a CCRC is independent living. Most communities anticipate that residents will remain in their independent units for at least 3 to 5 years after moving and will not need significant medical care. This ability is often confirmed by a Physician's note stating that the resident is free of communicable diseases and has a clean bill of health. Much like the age restriction, this admissions criterion ensures that the community is occupied by healthy residents who will, in theory, live the majority of the rest of the lives without the need for higher levels of care.

Financial Stability

Entry into a CCRC and maintenance of the monthly service fees requires significant financial stability and assets. Before a resident is admitted into any CCRC, official financial statements are submitted to be compared to the individual's projected expenses. In some instances, an exact underwriting multiple, such as three times the entry fee, must be present in the individual's estate. In other cases, there is no specific value, but rather an intuitive formula to test an individual's ability to pay for his or her residence in a CCRC. More than half of all CCRC residents report a net worth of more than $300,000 and an annual income of at least $50,000. Regardless, affluent individuals make up the targeted market for CCRCs, and their financial status must be confirmed before admission as a resident is granted.

Medicare and/or Long-Term Care Insurance

In many, but not all, cases, some sort of health insurance is included as an admissions criterion for a CCRC. For some communities, this simply includes enrollment in Medicare parts A and B, and for others, it may include an additional long-term care insurance requirement. Supplemental health insurance is certainly an added benefit for both the resident and the CCRC provider. This admissions criterion reduces the risks for the community while maintaining their commitment of providing life-long care.

When developing admissions criteria, the management structure of a CCRC must pay special attention to the potential long-term risks of resident admission. It is important for extensive care communities to protect themselves by having especially rigorous criteria that ensure the healthiest, most financially secure residents. Modified and Fee-for-Service care providers must be equally as diligent in their admissions processes, but the structure of their contract options provides inherent asset protection. Additionally, all communities must ensure sufficient reserves restricted for benevolent care for use on the occasion that a resident exhausts his or her funds and is still in need of medical care.

Fee Schedules and Refund Options

As older adults make their transition into a retirement community, there are significant financial obligations that must be met. In addition to the often rigorous admissions policies, application fees, waitlist fees, and deposits are required before a tenant ever occupies their new home. Communities also have a range of refund options and rates for services available on-site. Each of these options requires strict scrutiny on behalf of the resident, and it is important to find a balance between an attractive sense of community and the cost of maintaining a residence there.

Fees

The fees for each community vary based on the type of contract available and the services provided. These fees are dispersed throughout the application, move-in, and residential periods, but generally, they are heavily weighted early in the process.

Application:

The application fee is due when an individual or couple selects the community of their choice. This nonrefundable fee ranges from $100 to $300 and is used to cover the management's due diligence regarding the applicant's physical and financial health.

Waitlist:

After an applicant is accepted, a fee is required in order to put their name on the community's waitlist. This fee can be nonrefundable, or in some cases it will be designated to reduce the entrance fee when the resident moves in. For most CCRCs, this fee is $1,000, but for Carolina Meadows the fee is either $3,000 for the traditional waitlist, or 5% of the entrance fee ($6,000 to $22,000) for the Ready List. Placement on the Ready List indicates an individual's desire to move into the community immediately, and the fee acts as the unit deposit.

Deposit:

When an individual's unit of choice becomes available and he/she is ready to move in, a deposit must be paid in order to hold the unit. In the case of the traditional CCRCs, this deposit is 10% to 15% of the entrance fee. In the case of the fee simple purchase model of The Cedars, the deposit is equal to 15% of the Gross Purchase Price, which includes the price of the home plus the membership fee.

Entrance Fees:

The entrance fee for a CCRC is the payment required in exchange for the promise of lifelong care. Entrance fees are very large, and older adults often sell their homes in order to generate adequate liquidity. In this study, the entrance fees ranged from $69,800 at Carol Woods to more than $830,000 at The Cedars of Chapel Hill. Entrance fees vary based on the size of unit selected and the type of contract offered, and are due before a resident moves into the community.

Monthly Fees:

Monthly fees act as a type of membership due or rent payment. These fees help the CCRC cover the provision of care and the maintenance and upkeep of campus facilities. Of the five communities considered, the monthly fees ranged from $2,070 at Carolina Meadows up to

$4,281 at Galloway Ridge. Like the entrance fee, the monthly fees correlate with the size of the unit and the contract type. Contracts that include higher levels of care require higher monthly fees.

Health Care Fees:

When assisted living or skilled nursing care is needed, the fees charged to residents will vary, primarily based on the type of contract. CCRCs with Life Care contracts, like Galloway Ridge, charge a higher monthly fee, but any skilled nursing or assisted living care is provided at no extra charge. A fee-for-service community, like Carolina Meadows, charges a lower monthly fee, but when higher care is provided, the resident is charged an additional $172 to $278 per day ($5,000 to $8,000 per month) in addition to the monthly payment. Modified contract communities like the Forest at Duke and Carol Woods often provide a specified number of "free" days, and then offer higher care at a discounted per diem rate.

Miscellaneous Fees:

In most communities, additional services are offered for additional fees. These services include meal programs, guest accommodations, housekeeping, and more.
A complete listing of fees can be found in Appendix page 48.

Refunds

Because the future of life is undoubtedly uncertain, CCRCs offer various types of refund options. These refund options help seniors and their families recoup assets in the event of untimely death or dissatisfaction with the community. In order to receive a refund, an entrance fee must be received for the vacated unit which will help finance the value of the refund. Most communities offer a single refund option, but in some cases, the resident has multiple options from which to choose.

There are three basic types of refund options:

- Amortizing refund options reduce the value available for refund by a specified percentage for a specified number of years. (Usually 2% monthly for five years.)
- Percent refund options allow the CCRC to capture the value of the entrance fee up to a specified percentage (usually 50% or 90%). When the resident dies or vacates the unit,

the percent of the entrance fee, less a life care reserve, will be returned to the individual or individual's estate.

- Full refunds return the entire entrance fee, less a life care reserve and often a marketing fee to the individual or individual's estate.

Each of these refund options plays a significant role in an individual's selection of a CCRC and a CCRC's financial and management structure. The individual refund structure of each of the CCRCs in this study is included on Appendix page 49.

Financial Health and Structure

When considering housing options, seniors depend tremendously on the financial security of the community. "Moving to a CCRC generally involves a significant financial and emotional investment. Many older Americans sell their homes, which are often their primary assets, to pay the required fees, and, as a result, their ability to support themselves in the long run is inextricably tied to the long-term viability of their CCRC" (Cackley, 2010). In recent years, the economic turmoil has resulted in increased scrutiny in the performance and management of CCRCs. Consequently, many states have increased regulations and require CCRCs to publish financial data, as well as inform current residents of any threat of financial failure.

The Commission on Accreditation of Rehabilitation Facilities and the Continuing Care Accreditation Commission (CARF-CCAC) is the body that grants accreditation to CCRCs across the nation. In 2009, this organization, in partnership with Beard Miller Company, LLC Senior Living Services Consulting, and Ziegler Capital Markets published Financial Ratios and Trend Analysis for all of their accredited communities. The financial ratios are separated into three categories: Profitability, Liquidity, and Capital Structure. The ratios presented in this publication include not only a description of the calculations and implications, but also the ranges of values for all accredited communities in the nation. The comparisons in the next section apply primarily to the four nonprofit CCRCs because the audited financial statements for The Cedars and affiliated organizations did not provide the detail needed to complete all calculations, primarily in the delineation between operating and nonoperating cash flows. Inferences rather than exact calculations can generally address this gap in the data.

Profitability Ratios

The ability to generate surplus from annual operations is imperative to a community's ability to provide for the expenses of care for future residents. The following ratios help demonstrate the differences between revenues and expenses, and the sources for each.

Operating Margin

$$\frac{\text{Income/Loss from Operations} - \text{Contributions}}{\text{Total Operating Revenues}}$$

The operating margin "measures the portion of total operating revenues remaining after operating expenses are met" (CARF, 2009). It is calculated by dividing the income/loss from operations, less any contributions, by the total operating revenues. This demonstrates the extent to which a CCRC is relying on contributed funds, as well as the margin between revenues and expenses.

Operating Margin:	**Carol Woods**	**Carolina Meadows**	**Cedars of Chapel Hill**	**Forest at Duke**	**Galloway Ridge**
2008 Median: 1.6%	-3.94%	4.23%	n/a	**5.29%**	-1.27%

If operating expenses are exceeding operating revenues, this ratio will result in a negative number, like the figures for Carol Woods and Galloway Ridge. These two communities both experienced losses from operations in 2009. The operating revenues for The Forest at Duke and Carolina Meadows, however, exceeded the expenses of operation by about 5%. This indicates that the operations of these two communities are funded by the revenues that are generated, and there is little reliance on outside contributions, which can be a volatile source of income. It should also be noted that, because each of these organizations is a 501(c)3 nonprofit organization, profits that are generated are not distributed to investors, but rather are reinvested in the community.

Total Excess Margin

$$\frac{\text{Total Excess of Revenues over Expenses}}{\text{Total Operating Revenues} + \text{Net Non-operating Gains and Losses}}$$

The Total Excess Margin "includes both operating and nonoperating sources of revenue and gains" (CARF, 2009). This ratio, in combination with the Operating Margin gives a complete picture about the earnings of the CCRC and encompasses cash flows from both operations and other sources. For example, "if a provider has a low [operating margin] but a high [total excess margin], the provider may be relying significantly on nonoperating gains and/or contributions" (CARF, 2009).

Total Excess Margin:	**Carol Woods**	**Carolina Meadows**	**Cedars of Chapel Hill**	**Forest at Duke**	**Galloway Ridge**
2008 Median: 2.0%	**8.58%**	5.45%	n/a	3.30%	-1.27%

When taking nonoperations cash flows into account, Carol Woods has a very high Total Excess Margin. Although they experienced a deficit between operating expenses and revenue, they more than made up for this difference in nonoperating revenue. This gain was generated from investment activity and the income generated from interest rate swaps. On the other hand, The Forest at Duke experienced a loss in their nonoperations cash flow as a result of a loss on investments and a loss on the sale of investments. Although both of these communities experienced overall revenues that exceeded overall costs, it is important to note the impacts of an imbalance between operating and nonoperating revenues.

Liquidity Ratios:

These figures are primarily used by lenders in determining the CCRCs ability to meet the ongoing costs of operation. Liquidity ratios measure the assets that are readily available to meet the short-term cash needs of the community such as payroll, goods and services, current debt-service payments, and essential maintenance and repairs. Unrestricted cash flows and assets are the primary source of liquidity.

Days in Accounts Receivable

$$\frac{\text{(Net Accounts Receivable)}}{\text{(Residential and Healthcare Revenue/365)}}$$

The Days in Accounts Receivable calculation "measures the average number of days accounts receivables remain outstanding" (CARF, 2009). Because Accounts receivable are a primary source of cash flow for CCRCs, this figure measures the average length of time needed to collect these payments. When communities provide care and receive payments from insurance companies or Medicare, this figure can be very high. Because these payers have long processing periods, it often takes weeks for the CCRC to receive payment for services. When communities are paid primarily by private-paying residents, the Days in Accounts Receivable is often very low.

Days in Accts Receivable:	Carol Woods	Carolina Meadows	Cedars of Chapel Hill	Forest at Duke	Galloway Ridge
2008 Median: 18 days	9.3 days	14.4 days	20.1 days	**5.6 days**	17.9 days

The Forest at Duke has a very low number of days in accounts receivable, below the interquartile range, in fact. This demonstrates the management's ability to collect payment for services and reduces the risk of delinquent payers. It does, however, reduce the potential stream of cash available for future expenses, and may be a sign that the community does not have assets for potential expenses in the futures. "Effective management of accounts receivable ensures a steady stream of cash that can be invested to earn additional income for the organization" (CARF, 2009). All communities within this study are within the appropriate range based on contract type and care provided.

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The Current Ratio is the value of cash and receivables compared to every dollar owed in the short term. (Bell & Schaffer, 2005) Although this ratio is not included in the CARF-CCAC document, it is a primary indicator of nonprofit financial health. "Most lenders require at least a 2:1 ratio: for every dollar of debt or liability, the organization must have $2 of cash or assets" (Pearce, 2007).

Current Ratio	Carol Woods	Carolina Meadows	Cedars of Chapel Hill	Forest at Duke	Galloway Ridge
2008 Median: n/a	1.38	1.17	2.72	2.86	**3.92**

Galloway Ridge by far has the greatest value in current assets. This is most likely a result of the current expansion that is underway and the entrance fees and deposits received from pre-leasing. Because Carol Woods had an operating deficit in the last year, they have significant accrued expenses that result in a very low current ratio. Although this ratio is easy to calculate, it may not be entirely useful in judging the financial health of these organizations as it does not reflect the assets restricted by the board for capital investments or the level of cash maintained in reserves. (Pearce, 2007)

Cushion Ratio

$$\frac{\text{(Unrestricted Cash and Investments)}}{\text{(Annual Debt Service)}}$$

The Cushion Ration "measures the provider's cash position in relation to its annual debt obligation" (CARF, 2009). As with the previous two ratios, this ratio indicates a CCRCs ability to pay current liabilities, specifically the debt service. The greater the level of unrestricted funds on hand, the greater the ability to meet the burden of annual debt service. This value is very similar to the current ratio, but both the numerator and denominator are more specifically defined.

Cushion Ratio	Carol Woods	Carolina Meadows	Cedars of Chapel Hill	Forest at Duke	Galloway Ridge
2008 Median: 7.9	5.29	**17.47**	.90	4.13	5.27

Because Carolina Meadows is one of the oldest communities in this study, they have one of the lowest long-term debt values. This results in low annual debt service and reduces the annual burden felt by the community. Because Carolina Meadows has significant unrestricted assets and investments, this results in an unusually high cushion ration. The Cedars of Chapel Hill, because it is a relatively new for-profit entity, has large annual debt services as well as distribution to investors, which both increase annual payments. "Newer CCRCs…may have higher cash levels from fill-up entrance fees, but normally have higher annual debt service as well. More mature CCRCs would be expected to have a stronger [cushion ratio], both because their annual debt service would have been reduced over time and because their cash positions would have been growing through positive operating results and from entrance fee turnover" (CARF, 2009).

Capital Structure Ratios

The final financial ratios assess long-term solvency of the communities in this study. Cash flows are incorporated into comparisons with the value of long-term debt to evaluate the effective long-term management of assets and liabilities. These calculations are especially important in estimating the lifetime viability of a CCRC and its management entities.

Debt Service Coverage Ratio

(Total Excess Revenues over Expenses + Interest, Depreciation, and Amortization Expenses – Amortization of Deferred Revenue + Net Proceeds from Entrance Fees)
Annual Debt Service

The debt service coverage ratio "incorporates a measure of annual cash flow and therefore provides a measure of an important quantification of the link between annual operating performance and a provider's debt obligations" (CARF, 2009). As previously mentioned, newer CCRCs often have higher debt obligations, and will likely have lower debt service coverage ratios.

Debt Service Coverage Ratio	Carol Woods	Carolina Meadows	Cedars of Chapel Hill	Forest at Duke	Galloway Ridge
2008 Median: 2.3	3.04	**3.99**	.73	2.58	.40

When considering the debt service coverage ratio, The Cedars of Chapel Hill and Galloway Ridge both produce values less than one that can cause concern. This indicates that the communities are relying on entrance fees and deferred revenue to cover the annual debt service. Carol Woods, Carolina Meadows, and The Forest at Duke, on the other hand, have very low annual debt service, and although operating revenues may be low, sufficient funds are available to meet the debt liabilities.

Long-Term Debt to Total Assets Ratio

(Long-Term Debt, less Current Maturities)
Total Assets

The long-term debt to total assets ratio "relates an organization's total indebtedness to [its] total assets" (CARF, 2009). High percentages for this ratio indicate a weak capital structure in the fact that debt plays a significant role in the overall value of the community's assets. Although older communities have a lower value in assets as a result of depreciation, these communities often have lower levels of outstanding debt. New communities, on the other hand, often have both high asset value and high long-term debt.

Long-Term Debt to Total Assets	**Carol Woods**	**Carolina Meadows**	**Cedars of Chapel Hill**	**Forest at Duke**	**Galloway Ridge**
2008 Median: 38.8%	35.6%	**21.0%**	60.4%	55.4%	40.6%

Carolina Meadows has the lowest value for this ratio as a result of its high asset value and low debt obligation. The Cedars of Chapel Hill also has a very low debt obligation, but because none of the condominiums are held as assets, the entity's asset value is low as well, resulting in a very high ratio. Based on this comparison, it appears that the long-term debt to total asset ratio improves as a CCRC matures, which indicates strong financial health and the ability to provide services in the future.

More detailed financial calculations can be found in Appendix pages 50 and 51.

Conclusions

Continuing Care Retirement Communities have been, and will continue to be attractive living options for aging adults. These communities provide secure investment options with a variety of housing choices and amenities. A continuum of services is provided at a single location, and care is guaranteed even if a resident exhausts his or her funds. As developers pursue these residential products, however, they should be well aware of the risks involved and the variables that have the greatest impacts on profitability and financial solvency: contract types, ownership model, community age and expansion, and location.

Key Variables

Contract Types

The contract types provided by a CCRC dictate many of the other management and design variables. Of the three options, life-care contracts require much more rigorous admissions criteria, a larger benevolent care reserve, higher monthly fees, and higher entrance fees. Fee-for-Service or Rental contracts, on the other hand, will require much lower monthly fees and likely lower levels of care provision. Modified contracts provide a compromise between the other two contracts, and provide services with fees in between the two aforementioned options.

Ownership Model

A community's ownership model plays a large role in the success of a community as well. For-profit entities may have the opportunity to generate larger private investment as well as capital returns from the sale of units, but the tax burdens that are placed on residents can be unappealing. Nonprofit owners are not faced with significant property or income tax burdens, but may find it beneficial to account for charitable donations back to the community. Regardless, the ownership model greatly impacts the accounting and budgeting standards of the CCRC.

Community Age and Expansion

Although age is often an indication of financial stability, in order for a community to remain competitive in the market, updates and expansions must be completed in order to meet the needs of residents. In the near future, this will likely mean a higher percentage of independent living units, but in 10 to 20 years, this will probably mean a greater number of assisted and skilled nursing units. These modification projects do, however, often require significant capital investments that must be generated from reserves, investments, or from the operating income of the community, and can increase the financial risks at hand.

Location

More important than any design or financial decision is the location choice for a CCRC. Not only does the location dictate the market area and population, it will also impact the overall design and marketability of the development. If the community is in an unappealing neighborhood or very far from basic amenities, it is not likely to encourage residents to move from their current homes. As the costs of transportation continue to rise and the number of driving seniors continues to fall, livable and walkable communities with easy access to shopping, entertainment, and world-class health care will be incredibly important factors in the development of CCRCs.

Future of CCRCs

Following the recent recession, many communities have refined their management and spending structures, and have increased efficiency in operations. Monthly fees have increased to ensure the long-term stability, and board and management transparency is now more important than ever. Creating a desirable place to work not only improves relations with staff, but also improves the living conditions for residents as well. (McLeod, 2009)

As the health of the overall housing market improves, the growth in the CCRC industry will follow. When baby boomers are able to gain high returns for their homes, they will increase their financial ability to support their own retirement and their move into a CCRC. Because home sales are often the greatest barrier in attracting new residents, the improvement in the real estate market could have drastic positive effects on the senior housing industry.

As the population of older adults continues to rise, the demand for senior housing products will undoubtedly follow. The financial and management structure of these facilities will continue to become more sophisticated, reducing the risk of default and insolvency. The approvals and development periods will likely lengthen as states increase regulations and the disclosure of information, but senior housing will continue to be an attractive development option throughout the country. As this industry continues to grow, it will be imperative for developers to complete thorough market studies, master the art of attracting this growing but limited target market, and provide sufficient incentives for older adults to move from their homes.

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Appendix: Comparison Tables

Design and Features

Management and Organizational Structure

Fees and Services

Financial Data and Analysis

	Carol Woods 750 Weaver Dairy Rd. Chapel Hill, NC 27514	Carolina Meadows 100 Carolina Meadows Chapel Hill, NC 27517	Cedars of Chapel Hill 100 Cedar Club Circle Chapel Hill, NC 27517	Forest at Duke 2701 Pickett Road Durham, NC 27705	Galloway Ridge 3000 Galloway Ridge Pittsboro, NC 27312
Year Built	1979	1983	2004	1992	2005
Location	Urban/Suburban	Rural	Urban/Suburban (Meadowmont)	Urban/Suburban	Rural (Fearrington Village)
Site Size	120 Acres	167 Acres	50 Acres	47 Acres	50 Acres
Density	3.38 Units/Acre	3.34 Units/Acre	6.84 Units/Acre	7.06 Units/Acre	5.48 Units/Acre
Total Units	406	558	342	332	274
Independent Living	152 Garden Cottages 132 Apartments 3 Townhomes	229 Villas 160 Apartments	49 Cottages 194 Villa Units (Duplex) 63 Veranda Units (Apts.)	80 Cottages 160 Apartments	51 Villas 183 Apartments
Assisted Living	89 Units	64 Units	4 Units (Within Skilled Nursing Facility)	42 Units	23 Units
Skilled Nursing	30 Beds	90 Beds	32 Beds	50 Beds	17 Beds
Memory Care	-	15 Beds	-	-	-
Residents	462 (4/30/2010)	674 (3/31/2010)	428 (2010)	387 (12/31/2009)	337 (2010)
Amenities	Dining Room Social Hall Guest House Indoor Heated Pool Fitness Center Library Assembly Hall Computer Room Craft Rooms/Building Woodworking Shop Children's Center	9-Hole Golf Course Tennis Courts Croquet and Bocce Courts Shuffleboard Facilities Garden Space Woodworking shop RV Parking Spaces Covered Walkways Auditorium Dining Hall Private Dining Room Business Center Indoor Pool and Jacuzzi Hair Salon Library Bank Branch Craft/Activity Areas Guest Accommodations Café Fitness Room and Studio Art Studio	Formal Dining Room Informal Dining Room Private Dining Room Ballroom Art Studio and Activities Room Card and Game Room Beauty Salon and Barber Exercise Room Computer and Classroom Library/Reading Room Indoor Lounges Indoor Pool (Dining and shopping in Meadowmont)	Formal Dining Room Café Social Lounge Arts/Crafts Studio Auditorium Library Classroom Bank Beauty Salon/Barber Indoor Pool Fitness Areas Gift Shop	Reception Area Communications Center Dining Room Private Dining Room Café and Lounge Duke Center for Living Guest Accommodations Walking/Bike Trails Garden area Library Billiards/Game Room Croquet and Bocce Courts Putting Green Arts/Crafts Room Performance Areas Salon Woodshop Business Center On-site Banking (Dining and shopping in Fearrington Village)

	Carol Woods **750 Weaver Dairy Rd.** **Chapel Hill, NC 27514**	**Carolina Meadows** **100 Carolina Meadows** **Chapel Hill, NC 27517**	**Cedars of Chapel Hill** **100 Cedar Club Circle** **Chapel Hill, NC 27517**	**Forest at Duke** **2701 Pickett Road** **Durham, NC 27705**	**Galloway Ridge** **3000 Galloway Ridge** **Pittsboro, NC 27312**
Expansion Plans	5-10 Year Master Plan: ($13.75 Million) • Aquatic Center Expansion • 18 New Apartments • Health Center Additions for rehabilitation space and employee café • Covered drop-off area expansion • Library expansion • Craft building expansion • Art studio expansion • 6 New Assisted Living Units Other Projects: • Central Apartment Unit Expansions • Replacement of Exterior Siding and Windows • Additional Independent Living Townhomes	5-7 Year Master Plan: • Facilities Modernization • Additional Independent Living Units • Improvement of programs and services Current Projects: • Remodeling of the entrance to the Assisted Living buildings • Development of 22 new villas by December 2011	DuBose Health Center Expansion: • Expanded up to 84 Assisted Living and/or Skilled Nursing Beds, including a special memory care unit • Plans are underway to expand the Health Center to 48 beds in 2010. Other Projects: • 19 Additional condominiums building on acquired land	None planned. Recently updated in 2004.	Phase II: • 5 Additional Acres • 67 New Independent Living Units • 29 Assisted Living Units (15 designated for memory care) • 24 Skilled Nursing Units • Additional and Renovated Supportive Common Areas • Larger Auditorium • Third Dining Room • Expansion of library, arts/crafts room, laundry and housekeeping services • 49 seat Cinema • Massage Therapy room • New Courtyards • Larger primary care and outpatient services • Expansion of Duke Center for Living • Stabilized Occupancy expected between December 2012 and October 2013.

	Carol Woods 750 Weaver Dairy Rd. Chapel Hill, NC 27514	Carolina Meadows 100 Carolina Meadows Chapel Hill, NC 27517	Cedars of Chapel Hill 100 Cedar Club Circle Chapel Hill, NC 27517	Forest at Duke 2701 Pickett Road Durham, NC 27705	Galloway Ridge 3000 Galloway Ridge Pittsboro, NC 27312
Organizational Structure	501(c)3 nonprofit, tax-exempt organization Volunteer Board of Directors (18 voting members, 3 nonvoting members) Affiliated 501(c)3, The Carol Woods Charitable Fund, was established as a supporting organization for the operations of the Carol Woods facilities. Programmatic affiliations with the University of North Carolina at Chapel Hill.	501(c)3 nonprofit, tax-exempt organization Volunteer Board of Directors (15 voting members, 3 non-voting members) No affiliations with other religious, charitable, or other nonprofit organizations	The Cedars of Chapel Hill, LLC: For-profit entity that builds, markets, and sells homes; and manages The Cedars of Chapel Hill Club, Inc. The Cedars of Chapel Hill Club, Inc.: 501(c)4 nonprofit membership organization that collects monthly fees and manages the services and condominium aspects of The Cedars with Life Care Services, LLC. The Cedars of Chapel Hill Condominium Association: Nonprofit entity providing stewardship of common areas.	501(c)3 nonprofit, tax-exempt organization Volunteer Board of Directors (15 voting members) Programmatic affiliations with Duke University and Duke University Medical Center to provide services and activities to residents	501(c)3 nonprofit, tax-exempt organization Volunteer Board of Directors (16 voting members, 4 of whom are residents, and 2 non-voting members) No affiliations with other religious, charitable, or other nonprofit organizations CRSA/LCS Management, LLC is responsible for the day to day operations of the community.
Mission/ Vision	Mission: "To provide a safe, healthful, and secure environment for persons throughout their later years, as well as to engage in cooperative research, development, and training in areas encompassed by the mission…Residents' ongoing needs… shall be supported through the provision of appropriate resources, encouragement of residents' leadership, participation in and service to Carol Woods and the larger community" Vision: "The Chapel Hill Residential Retirement Center (CHRRC) strives to serve as a national model for continuing care retirement communities and to be a leader in promoting successful aging throughout the state and nation."	Mission: "To provide housing, health, and wellness services, and social opportunities for older adults in a financially secure community that respects individual dignity, encourages independence, and promotes life-long learning." Vision: "To be the leading retirement community in the southeast."	Mission: "To enhance the quality of life of our members, maximize opportunities for growth and longevity, and ensure a dynamic community of people whose lives are enriched, whose productivity is ensured, and whose contributions continue to be invaluable."	Mission: "To provide a caring, responsible community that fosters the independence of residents of retirement age by enhancing their ability to lead purposeful, active, healthy and secure lives."	Mission: "To provide a retirement community of superior quality at a reasonable cost to those individuals who entrust Galloway Ridge with their future health, social, spiritual and recreational needs and who wish to continue the standard of living they previously enjoyed…Respect and empathy for the individuality, privacy and independence of the residents are of paramount importance."

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Admissions Policies	A. 65+ years of age B. Personal Health History and Physician's history stating the resident is able to live independently and have a reasonably active lifestyle for 3-5 years. C. Medicare A and B policies D. Assets and Income sufficient to meet the financial obligations of the resident and to cover ordinary living expenses (illustrated in Confidential Financial Statement).	A. 55+ Years of Age B. Capable of performing all activities of daily living without assistance. C. Medical history should include absence of factors that could lead to a rapid decline in health status. D. Long-term care insurance is highly recommended, but not required. E. Financial statements that compare assets and income against projected expenses F. Smokers are not eligible, as Carolina Meadows became a smoke free campus on January 1st, 2011.	A. 60+ Years of Age B. Capable of independent living C. Free of communicable diseases D. Able to pay up-front: purchase price, membership fee, monthly payment, two months of common expenses, 12 months of hazard and flood insurance, and a reserve deposit. E. Financial resources to pay monthly fee plus personal expenses	A. 65+ Years of Age B. Ability to live independently C. Financial resources to pay entry and monthly fees D. Medicare Parts A and B plus supplemental health insurance	A. 65+ Years of Age B. Capable of performing activities of daily living C. Medical history should include an absence of factors that could lead to a rapid decline in health status. D. Financial statements that compare assets and income against projected expenses E. Medicare A and B policies plus Medicare supplemental policy

	Carol Woods **750 Weaver Dairy Rd.** **Chapel Hill, NC 27514**	**Carolina Meadows** **100 Carolina Meadows** **Chapel Hill, NC 27517**	**Cedars of Chapel Hill** **100 Cedar Club Circle** **Chapel Hill, NC 27517**	**Forest at Duke** **2701 Pickett Road** **Durham, NC 27705**	**Galloway Ridge** **3000 Galloway Ridge** **Pittsboro, NC 27312**
Contracts Available and Services Included	Modified (Type B) Services included: • Parking • Amenities • Assistance with filing insurance claims • One meal per day • Weekly housekeeping • Utilities • Landscaping/Property maintenance • Transportation • 15 "free" health care days • Discounted assisted living and nursing care • Preventative on-campus clinic visits • Social services and counseling	Fee-for-Service (Type C) Services included: • Monthly meal plan • Social, education, and wellness activities • Emergency call system • Payment of property taxes (ad velorem) • Professional management and maintenance of facilities • Transportation • Utilities • Social services, counseling, and support programs • Individually tailored wellness plans **All healthcare provided at per diem rates for The Fairways and The Health Center.	Condominium purchase agreement and membership in the Cedars of Chapel Hill Club. Membership agreement includes: • One meal per day • Weekly housekeeping • Weekly laundry • Maintenance of home and common areas • Grounds care • Club activities • Transportation (within a 12 mile radius) • Security • Certain utilities • 90 days of nursing care and/or personal care in the assisted living facility	Modified (Type B) Services included: • Dining meal plan • Weekly housekeeping • Scheduled transportation • Utilities • Emergency Response and security • Parking • Assistance with filing insurance claims • Educational, cultural, and recreational activities • Primary physician care delivered on site • Regular physical examination • Physical, occupational, and speech therapy	Extensive (Type A) (only CCRC in Triangle offering this contract) Services included: • Amenities • One meal per day • Weekly Housekeeping • Utilities • Laundry • Security • Landscaping and Maintenance • Wellness clinic for preventative/health promotion • Social services and counseling • Activities and programs • Membership in the Duke Center for Living • Payment of property taxes • Transportation • Parking • Storage Compartment • Unlimited assisted living and nursing care services

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Application Fee	$300 non-refundable	$300 non-refundable	$100 non-refundable	$300 non-refundable	$250 non-refundable
Waitlist Fee	$1,000	$3,000 Waiting List 5% (Ent. Fee) Ready List	$1,000 refundable	$1,000 refundable	$1,000 non-refundable
Deposit	10% of Entrance Fee	-	15% of Gross Purchase Price	15% of Entrance Fee	10% of Entrance Fee
Entrance Fee (single person)	$69,800 - $352,000	$116,000 - $443,000 + $8,500 Resident Assistance fee	$395,000 - $829,300 + 10% Membership fee	$87,900 - $527,500	$222,045 - $813,456
Monthly Fee (single person)	$2,275 - $4,257	$2,070	$2,123 - $4,687	$2,245 - $3,804	$2,207 - $4,281
Care Fees	<u>Temporary Stay:</u> Monthly fee + per diem <u>Permanent Stay:</u> Reduced Monthly fee ($2,275) + per diem <u>Skilled Nursing:</u> $78 - $88 per diem <u>Assisted Nursing:</u> $65 - $75 per diem <u>Assisted Living:</u> $41 - $51 per diem Each resident receives 15 prepaid Health center days. After these days are used, the charges are as above.	<u>Skilled Nursing:</u> Current Monthly fee + $256 - $270 per day <u>Assisted Living:</u> Current Monthly fee + $172 - $278 per day	<u>Temporary Stay:</u> Current Monthly fee + Additional meals <u>Permanent Stay (90+ days):</u> Reduced Monthly fee + Member Health Center Rate + Additional meals Services such as nursing supplies, physical therapy, pharmacy, special duty nurses, personal laundry, rental of equipment, or other services are not included in the monthly fee and must be covered by insurance or private payment.”	<u>Temporary Stay:</u> Monthly fee + 60% of per diem rate ($296) <u>Permanent Stay:</u> 40% of per diem rate Each resident receives 15 prepaid days at the Health and Wellness Center (houses both skilled nursing and assisted living). After these days are used, the charges are as above.	<u>Skilled Nursing:</u> Current Monthly fee <u>Assisted Living:</u> Current Monthly fee Services such as prescription medications, personal physicians, outpatient services, physical therapy, occupational therapy, respiratory therapy, private duty care, and more are not included in the monthly fee, and must be covered by insurance or private payment.
Misc. Fees (most are optional)	Meal Programs Guest Accommodations Beauty Shop/Barber Person Gardening Home Services Outpatient Services Nurse House Call Medical Supplies	Meal Programs Guest Accommodations Maintenance Housekeeping Home Care Services Outpatient Services Health Care	<u>Required:</u> Condominium Fees Hazard Insurance Premiums $9,000 Reserve Deposit Real Estate Taxes Replacement Reserve fees <u>Optional:</u> Meal Programs Housekeeping Beauty Parlor/Barber Home Care Services	Meal Programs Guest Accommodations Maintenance Housekeeping In-Home Companions	Meal programs Guest Accommodations Maintenance Housekeeping In-Home Companions

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Refund Plans	Amortizing: 8% accrues to Carol Woods in the fourth month, and then 2% thereafter. The refund thus decreases to zero over 50 months.	Full Refund: When the vacated unit is remarketed at the current Entry fee, CM will calculate the Net New Entry Fee by deducting from the new Entry Fee both a marketing fee (equal to 5% of the new entry fee) and the cost of refurbishing the unit to its original condition. The Refund will be equal to the lesser of (1) the amount of the original Entry Fee, or (2) the amount of the Net New Entry Fee, and will also pay one-half of the the excess, if any, of the Net New Entry Fee over the Original Entry Fee.	Resale: Because homes are purchased in The Cedars, there is no refund of an entrance fee. Residents have the right of resale of the units (The Cedars has option to purchase) for market value. Upon resale, the reserve deposit, condominium fees, and hazard insurance premiums are refunded to the owner. The Membership fee is non-refundable and non-transferrable.	Amortizing: 2% of the Residence Fee* accrues to The Forest each month. The refund thus decreases to zero over 50 months 50% Refundable: 2% of the Residence Fee* accrues to The Forest each month for 25 months after which the refund remains at 50% 90% Refundable: 2% of the Residence Fee* accrues to The Forest each month for 5 months after which the refund remains at 90% *Residence Fee is equal to the Entrance Fee less a $10,000 Life Care Reserve per person **All refunds are deferred until 30 days after receipt of a replacement entrance fee from a new resident by Forest at Duke.	Amortizing: 4% earned upon occupancy 2% earned per month for the first 48 months Refund = Entrance fee less amount amortized 90% Refundable: During first five years, refund is equal to the entrance fee, less 2% earned during each month of occupancy. After five years, refund is equal to 90% of the entrance fee. **All refunds are subject to receipt by Galloway Ridge of a replacement entrance fee from a new resident.

2009 Financial Statements	**Carol Woods** 750 Weaver Dairy Rd. Chapel Hill, NC 27514	**Carolina Meadows** 100 Carolina Meadows Chapel Hill, NC 27517	**Cedars of Chapel Hill** 100 Cedar Club Circle Chapel Hill, NC 27517	**Forest at Duke** 2701 Pickett Road Durham, NC 27705	**Galloway Ridge** 3000 Galloway Ridge Pittsboro, NC 27312
Operating Margin: (Income/Loss from Operations – Contributions) (Total Operating Revenues) 2008 Median: 1.6%	-$789,859 $20,031,167 **-3.94%***	$1,567,339 - $352,931 $28,735,964 **4.23%**	**Financial Statements for Cedars of Chapel Hill Club, Condominium Association, and Cedars of Chapel Hill, LLC. Not separated by operating and non-operation cash flow.	$945,207 $17,884,556 **5.29%**	-$232,762 $18,274,005 **-1.27%**
Total Excess Margin: (Total Excess of Revenues over Expenses) (Total Operating Revenues + Net Non-operating Gains and Losses) 2008 Median: 2.0%	$1,953,063 $20,031,167 + $2,742,922 **8.58%***	$1,567,339 $28,734,964 **5.45%**	**Financial Statements for Cedars of Chapel Hill Club, Condominium Association, and Cedars of Chapel Hill, LLC. Not separated by operating and nonoperating cash flow.	$577,893 $17,884,556 + -$367,314 **3.30%**	-$232,762 $18,274,005 **-1.27%**
Days in Accounts Receivable: (Net Accounts Receivable) (Residential and Healthcare Revenue/365) 2008 Median: 18 Days	$497,642 $19,509,447/365 **9.3 Days**	$1,108,009 $28,061,327/365 **14.4 Days**	$1,081,902 $19,691,750/365 **20.1 Days**	$274,039 $17,881,169/365 **5.6 Days***	$894,165 $18,187,638/365 **17.9 Days**
Current Ratio: Current Assets Current Liabilities	$4,310,823 $3,131,393 **1.38**	$3,491,890 $2,995,846 **1.17**	$3,230,805 $1,186,980 **2.72**	$9,082,714 $3,172,389 **2.86**	$11,575,222 $2,952,406 **3.92**

2009 Financial Statements	**Carol Woods** 750 Weaver Dairy Rd. Chapel Hill, NC 27514	**Carolina Meadows** 100 Carolina Meadows Chapel Hill, NC 27517	**Cedars of Chapel Hill** 100 Cedar Club Circle Chapel Hill, NC 27517	**Forest at Duke** 2701 Pickett Road Durham, NC 27705	**Galloway Ridge** 3000 Galloway Ridge Pittsboro, NC 27312
Cushion Ratio: (Unrestricted Cash and Investments) (Annual Debt Service) 2008 Median: 7.9	$3,889,359 $735,000 **5.29x**	$8,299,185 $475,000 **17.47x***	$2,148,903 $2,384,573 **.90x***	$8,658,964 $2,095,000 **4.13x**	$9,949,632 $1,884,821 **5.27x**
Debt Service Coverage: (Total Excess Revenues over Expenses + Interest, Depreciation, and Amort. Expenses – Amortization of Deferred Revenue + Net Proceeds from Entrance Fees) Annual Debt Service 2008 Median: 2.3x	$2,231,412 $735,000 **3.04x**	$1,895,594 $475,000 **3.99x***	$1,748,846 $2,384,573 **.73x***	$5,412,326 $2,095,000 **2.58**	$754,289 $1,884,821 **.40x***
Long-Term Debt to Total Assets Ratio: (Long-Term Debt, less Current Maturities) Total Assets 2008 Median: 38.8%	$27,315,000 $76,679,771 **35.6%**	$17,810,000 $84,955,057 **21.0%***	$10,069,760 $16,662,147 **60.4%***	$41,122,959 $74,252,981 **55.4%***	$41,150,000 $101,411,399 **40.6%**

**Indicates a value above or below the 2008 Interquartile Range published by CARF-CCRC, Beard Miller Company LLP, and Ziegler Capital Markets.*